

§ 359.72

§ 359.72 May the United States supplement or amend the offering of Series I savings bonds?

We may supplement or amend the terms of this offering of Series I bonds at any time.

APPENDIX A TO PART 359—REDEMPTION VALUE CALCULATIONS

1. What are some general tax considerations?

Interest on savings bonds is subject to taxes imposed under the Internal Revenue Code of 1986, as amended. The bonds are exempt from taxation by any State or political subdivision of a State, except for estate or inheritance taxes. (See 31 U.S.C. 3124.)

2. What is an example of a book-entry Series I savings bonds redemption value calculation?

Assume a New Treasury Direct par investment amount in a book-entry Series I sav-

31 CFR Ch. II (7–1–11 Edition)

ings bonds of \$34.59, with an issue date of May, 2001, and a redemption date of December, 2001. The published CRV for a definitive \$100 Series I savings bonds issued May, 2001 and redeemed December, 2001 = \$101.96.

Calculation:

$$\begin{aligned} &[(\text{Book-entry par investment}) + (100)] \times \text{CRV} \\ &\quad \text{value for \$100 bond} \\ &[(\$34.59 + 100)] \times 101.96 \\ &[0.3459] \times 101.96 \\ &35.267964 \\ &= \$35.27 \end{aligned}$$

APPENDIX B TO PART 359—COMPOSITE SEMIANNUAL RATE PERIOD TABLE

1. What months make up the composite semi-annual rate period?

You may use the following table to find when a bond's semiannual rate period begins and when we'll announce the rate that applies during each period.

If your Bond has an issue date of—	Then its semiannual rate period begins—	We announce the rate that applies during a rate period in—
January	January 1	November 1 (of the previous year).
	July 1	May 1.
February	February 1	November 1 (of the previous year).
	August 1	May 1.
March	March 1	November 1 (of the previous year).
	September 1	May 1.
April	April 1	November 1 (of the previous year).
	October 1	May 1.
May	May 1	May 1.
	November 1	November 1.
June	June 1	May 1.
	December 1	November 1.
July	July 1	May 1.
	January 1	November 1 (of the previous year).
August	August 1	May 1.
	February 1	November 1 (of the previous year).
September	September 1	May 1.
	March 1	November 1 (of the previous year).
October	October 1	May 1.
	April 1	November 1 (of the previous year).
November	November 1	November 1.
	May 1	May 1.
December	December 1	November 1.
	June 1	May 1.

APPENDIX C TO PART 359—INVESTMENT CONSIDERATIONS

1. What are some index contingencies?

(a) If a previously reported CPI-U is revised, we will continue to use the previously reported CPI-U in calculating redemption values.

(b) If the CPI-U is rebased to a different year, we will continue to use the CPI-U based on the base reference period in effect when the security was first issued, as long as that CPI-U continues to be published.

(c) If, while an inflation-indexed savings bonds is outstanding, the applicable CPI-U is discontinued or, in the judgment of the Sec-

retary, fundamentally altered in a manner materially adverse to the interests of an investor in the security, or, in the judgment of the Secretary, altered by legislation or Executive Order in a manner materially adverse to the interests of an investor in the security, Treasury, after consulting with the Bureau of Labor Statistics or any successor agency, will substitute an appropriate alternative index. Treasury will then notify the public of the substitute index and how it will be applied. The Secretary's determinations in this regard will be final.

(d) If the CPI-U for a particular month is not reported by the last day of the following month, we will announce an index number

based on the last 12-month change in the CPI-U available. Any calculations of our payment obligations on the inflation-indexed savings bonds that rely on that month's CPI-U will be based on the index number that we have announced.

2. How will inflation lag affect my Series I savings bonds?

The inflation rate component of investor earnings will be determined twice each year. This rate will be the percentage change in the CPI-U for the six months ending each March and September. The rate will be included in the composite rate that is announced each May and November. For Series I bonds offered from September 1, 1998, through October 31, 1998, the inflation rate component of investor earnings will be the percentage change in the CPI-U for the six months ending March 31, 1998. This rate will be included in the composite rate that is announced for Series I bonds offered effective from September 1, 1998, through October 31, 1998. In the event the Secretary, or the Secretary's designee, announces a composite rate at an effective date other than May 1 or November 1, the announcement will specify the period to be used to calculate the semiannual inflation rate. Each composite rate will be effective for the entirety of the applicable rate period that begins while the rate is in effect. Thus, an inflation rate may affect interest accruals from 3 to 13 months from the date that the CPI-U is measured.

Example 1. The inflation rate determined from the CPI-U for the six-month period from October, 2003, through March, 2004, will be included in the composite rate announced in May, 2004. For a bond purchased in May 1999, this rate would go into effect immediately, since a new semiannual rate period for this bond will begin in May, 2004. Series I bonds issued in May begin new semiannual rate periods in the months of May and November. In this example, the inflation rate will have its earliest impact in June 2004, when interest from May accrues, three months after the end of the six-month CPI-U period that ends in March, 2004.

Example 2. The May 1, 2004, rate will apply similarly to a bond purchased in October 1999. Series I bonds issued in October begin new semiannual rate periods in the months of April and October. Thus, for this bond, the May 1, 2004, composite rate (which includes the inflation rate) will not go into effect until a new semiannual rate period begins on October 1, 2004. This rate, therefore, will determine the inflation-indexed portion of each interest accrual from November, 2004, through April, 2005. In this example, the inflation rate will have its latest impact in April 2005, 13 months following the six-month CPI-U period that ended March 31, 2004.

APPENDIX D TO PART 359—TAX CONSIDERATIONS

1. What are some general tax considerations?

General. Interest is subject to all taxes imposed under the Internal Revenue Code of 1986, as amended. The bonds are also subject to Federal and State estate, inheritance, gift, or other excise taxes. The bonds are exempt from all other taxation by any State or local taxing authority.

2. What reporting methods are available for savings bonds?

(a) *Reporting methods.* You may use either of the following two methods for reporting the increase in the redemption value of the bond for Federal income tax purposes:

(1) *Cash basis method.* You may defer reporting the increase to the year of final maturity, redemption, or other disposition, whichever is earliest; or

(2) *Accrual basis method.* You may elect to report the increase each year, in which case the election applies to all Series I bonds that you then own, those subsequently acquired, and to any other obligations purchased on a discount basis, such as savings bonds of Series E or EE.

(b) *Changing methods.* If you use the cash basis method, you may change to the accrual basis method without obtaining permission from the Internal Revenue Service. However, once you elect to use the accrual basis method in paragraph (a)(2), you may change the method of reporting the increase only by following the specific procedures prescribed by the Internal Revenue Service for making an automatic method change. For further information, you may contact the Internal Revenue Service director for your area, or the Internal Revenue Service, Washington, DC 20224.

3. What transactions have potential tax consequences?

The following types of transactions, among others, may have potential tax consequences:

(a) A reissue that affects the rights of any of the persons named on a definitive Series I savings bonds may have tax consequences for the owner.

(b) The transfer of a book-entry Series I savings bonds from one owner to another may have tax consequences for the purchaser.

(c) The redemption of a book-entry Series I savings bonds by the secondary owner may have tax consequences for the primary owner.

(d) The purchase of a Series I savings bonds as a gift may have gift tax consequences for the purchaser.

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